

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 EA-11 NEA-14 IO-14 PA-04 PRS-01 USIA-15

DRC-01 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02 COME-00

DODE-00 EB-11 FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00

NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20

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R 121844Z JUN 74

FM USMISSION OECD PARIS
TO SECSTATE WASH DC 2968
INFO AMEMBASSY BRUSSELS

LIMITED OFFICIAL USE SECTION 01 OF 02 OECD PARIS 14297

E.O. 11652: N/A

TAGS: ENRG

SUBJECT: OUTLOOK FOR OIL PRICES AND BALANCE OF PAYMENTS

REF: AMEMBASSY LONDON 7220

1. GENERAL AGREEMENT REPORTED IN REFTEL ABOUT OUTLOOK FOR OIL PRICES IN LONG TERM IS ENCOURAGING, BOTH IN REFLECTING GOOD COOPERATIVE ECG EFFORT OF ANALYSIS AND IN PROMISING RELIEF FOR 1980'S. IT IS REASSURING TO CONTEMPLATE THAT OIL PRICES WILL FALL SUBSTANTIALLY IN REAL TERMS BEFORE L985 AND THAT OPTIMISM IS BEGINNING TO GROW ABOUT 1980-85 SITUATION. THIS GOVERNMENTAL OPTIMISM IS APPARENTLY OCCURRING DESPITE FACT MENTIONED PARA 5 REFTEL THAT PERVERSE IMPACT OF PRICE EXPECTATIONS ON INVESTMENTS IN OIL AND COMPETITIVE ENERGY SOURCES IS PRODUCING "IRISH DILEMMA" WHICH MAY FRUSTRATE ACHIEVEMENT.

2. WITH REGARD TO 1970'S, HOWEVER, APPARENTLY MOST ECG
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MEMBERS PREOCCUPIED WITH POSSIBILITY THAT OPEC POWERS

OVER PRICES AND PRODUCTION COULD RESULT IN PROLONGING
PRESENT MASSIVE DISEQUILIBRIUM IN INTERNATIONAL PAYMENTS.

3. RECENT CONVENTIONAL WISDOM HAS BEEN TO REGARD OPEC
REVENUES ON COLLECTIVE BASIS AND TO CONSIDER THAT
APPROXIMATELY \$55 BILLION INCREASE IN THESE REVENUES
WILL BE MATCHED BY CORRESPONDING REFLOWS TO MARKETS IN
DEVELOPED WORLD. THIS BEGUILING EQUIVALENCE IN FLOWS
BETWEEN THE TWO BLOCS BECOMES LESS COMFORTING WHEN IT
IS RECALLED THAT BALANCE OF PAYMENTS FINANCING DOES NOT
PRESENT ITSELF AS BLOC PROBLEM BUT ONE FOR SOLUTION
BY INDIVIDUAL NATIONAL MONETARY AUTHORITIES. CONCEALED
WITHIN THESE GLOBAL TOTALS ARE SUCH PROBLEMS AS FOLLOWING

A) REFLOWS OF OIL REVENUE FOR INVESTMENT WILL NOT BE
EVENLY DISTRIBUTED THROUGHOUT INDUSTRIAL WORLD. RECEIPTS
WILL VARY GREATLY BETWEEN COUNTRIES LIKE GERMANY, U.S.
AND SWITZERLAND ON ONE HAND, AND ITALY AND U.K.

B) DESPITE ROUGH EQUIVALENCE OF FLOWS TO BE
REDISTRIBUTED, SUBSTANTIAL DIFFERENCES EXIST BETWEEN
MATURITY AND LIQUIDITY REQUIREMENTS OF LENDERS AND
BORROWERS. VERY SIZE OF INCREASED FLOWS PLACES UNUSUAL
BURDEN OF INTERMEDIATION ON FINANCIAL INSTITUTIONS,
EITHER IN NATIONAL CENTERS OR EURO MARKET, AT SAME TIME
THAT DOMESTIC MONETARY CONDITIONS ALREADY STRAINED BY
SEVERE INFLATION.

C) TWO PRECEDING FACTORS INCREASE RISK THAT ECONOMIC
IMBALANCES WILL SET OFF SPECULATIVE CURRENCY MOVEMENTS
OF LARGE SCALE.

D) NEW SITUATION IS ALSO CREATED WITH REGARD TO
FUNDING CAPITAL ASSISTANCE FOR DEVELOPING COUNTRIES.
BALANCE OF PAYMENTS AIMS OF OECD COUNTRIES HERETOFORE
REFLECTED SITUATION IN WHICH CURRENT-ACCOUNT SURPLUSES
OF DAC MEMBERS COULD BE USED FOR FINANCING OFFICIAL OR
OTHER LONG-TERM TRANSFERS TO LDC'S. PROSPECTS NOW
REVERSED, WITH MOST OECD COUNTRIES IN CURRENT ACCOUNT

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DEFICIT AND WITH MUCH OF BOTH GROSS AND NET TRANSACTIONS
ON CAPITAL ACCOUNT LIKELY TO REPRESENT SHORT-TERM
CAPITAL FLOWS.

E) RAPID SHIFT INTO CURRENT ACCOUNT DEFICIT WILL
PRODUCE SEVERE ADJUSTMENT STRAIN DOMESTICALLY IN OECD
COUNTRIES. WHILE THIS WILL BE SOMEWHAT ALLEVIATED IN
REAL TERMS BY FACT THAT IMPORT SURPLUS IS OCCASIONED
MORE BY VALUE INCREASE THAN ONE OF VOLUME, POLITICAL
PRESSURES TO "CORRECT" WILL NEVERTHELESS BE STRONG.

4. TENTATIVE CONCLUSION HARD TO ESCAPE THAT IF OIL
PRICES REMAIN ANYWHERE NEAR PRESENT LEVELS, CUMULATIVE
BALANCE OF PAYMENTS CONSEQUENCES WILL BE TO PERPETUATE
SURPLUS IN FAVOR OF OPEC COUNTRIES OF SOME \$50 BILLION
PER YEAR WHICH WILL BE UNDIGESTED BECAUSE OF LIMITED
CAPACITY IN MANY OF THEM TO ABSORB FOREIGN GOODS AND
SERVICES.

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5. DIFFERENTIAL EFFECTS AMONG INDIVIDUAL OIL-IMPORTING
COUNTRIES, MOREOVER, WILL IN PRACTICE BE EXTREMELY
CRITICAL. IMPACT OF ATTEMPTING TO ACCOMMODATE ALL THESE
EFFECTS IN OECD AREA WILL SPREAD OUTSIDE ECONOMIC ARENA
AND MAY EVEN ERUPT INTO MAJOR POLITICAL/SOCIAL UPHEAVALS
UNLESS GOVERNMENTAL ACTIONS ARE WISE, CONVINCING, AND
INTERNATIONALLY COOPERATIVE.

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